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TAGS: [ECON](#) [ETRD](#) [EFIN](#) [EC](#)
SUBJECT: FOREIGN MINISTER ESPINOSA POSITIVE ON BIT, ECONOMIC
DIALOGUE; PULLED BACK ON OXY ARBITRATION COMMENTS

REF. A. Quito 1045

[1](#)B. Salazar-Edwards e-mail 6/19/07

[1](#)1. (SBU) Summary: In an interview with El Comercio newspaper on June 21, Foreign Minister Espinosa made several forward-leaning statements regarding economic relations with the United States. Espinosa explained that the GOE would not withdraw from its bilateral investment treaty (BIT) with the U.S. but is reviewing all of its BITs, would accept the results of the Occidental Petroleum (Oxy) arbitration case "come what may", and is interested in exploring a long-term commercial accord with the U.S (even though it is not ready to sign an FTA). President Correa walked back from Espinosa's Oxy comments in the following days, stressing that the GOE continues to reject the arbitration tribunal's jurisdiction over the case. End Summary.

U.S.-Ecuador Bilateral Investment Treaty

[1](#)2. (U) Espinosa noted in her interview that she had previously "used the wrong words" when she stated publicly that the GOE would denounce or withdraw from the U.S.-Ecuador Bilateral Investment Treaty. Rather than denouncing the treaty, she reaffirmed the GOE's position that it is planning to begin a bilateral process to reform all of the country's bilateral investment treaties (ref A).

Oxy

[1](#)3. (U) When asked whether Ecuador would accept the results of arbitration in the Occidental arbitration case, Espinosa responded that it would, "come what may." She said that the arbitration is a legitimate process, and Ecuador will exercise its legitimate right to argue that Oxy did not respect its contract. She noted that the arbitration is independent of what the GOE thinks about the tribunal (the World Bank's International Center for the Settlement of Investment Disputes, ICSID), and that it would be irresponsible for Ecuador not to defend itself.

[1](#)4. (SBU) In the following days, however, both President Correa and Ecuador's Procurador General (solicitor general) walked back Espinosa's statement. A Foreign Ministry press statement noted that only the President and the Procurador have authority to make

declarations about the arbitration process. Correa announced that there had been no change in position and that the GOE continues to reject ICSID's jurisdiction over the Oxy case. Correa attributed Espinosa's comments to a misunderstanding by the interviewing reporters. He further pointed to the fact that Ecuador had not appointed an arbiter as proof of Ecuador's rejection of the arbitral process. Correa did not specifically say what the GOE would do should they lose their argument with respect to ICSID jurisdiction and ultimately (upon conclusion of the multi-year arbitral process) be faced with a negative decision requiring some kind of compensatory action.

Economic Dialogue

15. (SBU) When asked whether a short-term ATPA extension would put pressure on Ecuador to negotiate a broader trade arrangement, Espinosa responded that although Ecuador would not sign an FTA with the U.S., she acknowledged that the U.S. is Ecuador's most important trading partner and suggested that Ecuador is interested in a long-term commercial framework with the U.S. that would provide trade preferences. She acknowledged that there currently is no model for such a long-term commercial deal, but said that the GOE is considering starting a dialogue with the USG on economic issues which could explore a "long-term system of preferences." Embassy Quito responded to press inquiries with Washington's cleared guidance (ref B), confirming the possibility of an economic dialogue, but did not address the question of a long-term framework.

16. (SBU) Comment: Having recently returned from her ATPA lobbying effort, Espinosa continued to attempt to put a positive spin on bilateral economic relations while also responding to private sector concerns about the possible eventual loss of ATPA benefits. She apparently exceeded her mandate regarding the GOE's posture on the

Oxy arbitration case. President Correa and her own ministry subsequently walked back her comment by focusing instead on the GOE's legal tactic of challenging ICSID's jurisdiction over the case. And while the positive tone is welcome, Espinosa also was reaching rather far in suggesting that the still-to-be launched Economic Dialogue might be able to develop a new model for long-term trade preferences, which could raise private sector expectations for what a dialogue could achieve. End Comment.

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